

STERLING PRODUCTS LIMITED

Chairman's Report to Shareholders

Dear fellow shareholders:

The year 2006 was elections year. General Elections is normally associated with tensions and the lowering of business confidence. Although this was so in the lead-up to elections and for a few months afterwards, there is evidence of a renewed vibrancy of the economy which is in part a reflection of the investments that went into projects and activities associated with Cricket World Cup 2007. The projections for 2007 are optimistic. Sterling is part of that bandwagon which we hope will propel us along a path of sustained growth of the national economy.

Economic Overview

The Gross Domestic Product increased by 4.7% in year 2006 compared with a decline of 2.0% in 2005. There were increases in construction of 12.0%, but major decreases in bauxite and gold mining. Agriculture, which was seriously affected by the disastrous floods in the coastland Regions in January 2005, recovered and grew by 6.6%, but did not reach the levels of 2004. Fishing showed a decline of 4.3% but forestry grew by 11.1%.

Urban inflation was 3.6% in year 2006 a decline from the rate of 8.3% in 2005. The increase of 10% in the distribution services sector is part of the changing structure of the economy that is being driven by trade liberalization.

Results

The Company saw another year of growth in third party revenue of G\$ 242 million or 14.9% over year 2005 revenues. Year 2005 revenue had grown by \$167 million or 10.7% over year 2004. This continuous growth was a result of our concerted efforts locally and internationally. Sterling replaced part of its fleet of distribution vehicles and also added to the fleet in order to maintain a high service level. Overseas we are involved in co-operative advertising with our agents in order to increase our market penetration.

Turnover surpassed the \$1.8 billion resulting in a profit before tax of G\$ 79.0 million, a decrease of 24% over 2005 due to increases in administrative and general expenses by G\$ 45.8 million coupled with increases in production costs which reduced our gross profit margin to 22 % or 2.3% from last year. Profit after tax totaled G\$ 48.2 million, a decrease of 8.7% from 2005

Cash and cash equivalents at the financial year end, totaled G\$ 114 million, a decrease of 15% over previous year after taking into consideration the acquisition of fixed assets, payment of dividends to shareholders and taxes. Expenses totaled for the year increased by G\$ 45.8 million or 14% over the previous year. Reasons attributed to increases in

employment cost by G\$ 15.6 million or 11.6% and depreciation went up by G\$ 9.3 million over last year. A loss of G\$ 9.0 million resulted from a disposal of investments in Caricom Sovereign Bonds held with the Government of Belize. Other administrative costs increased by G\$ 12.5 million over last year.

Market forces have caused the cost of energy to increase over the last year. The Company has self generating electricity facilities to supply our production plants therefore increases in fuel prices have a direct negative impact on the operations.

However we continue to benefit from the higher productivity due to our investments in a new margarine plant and increased ice cream production capacity.

The current ratio of 6.1 times and quick ratio of 2.6 times indicate that the Company Balance Sheet remains strong.

A Final and Interim Dividend totaling G\$ 3.30 was paid during the year and your directors are recommending a final dividend of \$3.30 per share that represents the same level of payout as the total for 2005. The accounts show a difference for the two years and this is because the International Accounting Standards only recognize the dividends on the date it is actually paid to Shareholders.

Sales, Marketing and Distribution

Although the regional market segments remain highly competitive we have managed to increase our export sales to G\$ 90.3 million, an increase of G\$ 52.4 million or 139% over last year. This level of exports is still only 5% of total sales and is indicative of the opportunities for growth

Locally our products have shown growth over last year viz. Ice Cream increased by 5%, Detergent increased by 57%, Edible fats increased by 8% and Novelties increased by 14%.

The Berbice Branch which was set up in year 2005 continues to show growth in sales.

We have strengthened the culture of sales and service excellence company wide; as we believe that our sales team is vital to the organization. During the year we have conducted training for members of our sales force to develop themselves so that relationships with our customers are strengthened and concretized.

Corporate Social Citizenship

We believe that maintaining good corporate citizenship is of importance to our success as stakeholders would respect our corporate social activities. Our giving to the community consists of sponsorships and donations.

We have partnered with the Linden Care Foundation to assist persons that are ill with HIV and help those who have been orphaned due to HIV. Other efforts were towards World Diabetes Day 2006 organized by Ministry of Health in Guyana, Radio Needy Children's Fund, Lions Cub of Georgetown and the Guyana Relief Council during the flooding in year 2006.

Corporate Governance

All directors are non-executive members of the Board. The positions of Chairman and CEO are held by separate individuals. The Audit Committee is comprised of three independent non-executive directors and is chaired by Mr. Paul Cheong. The Audit Manager reports to the Chairman of the Audit Committee.

The Remuneration Committee is appointed by the Board and is responsible for setting remuneration for all executive members of staff. This Committee comprises of three independent non-executive directors and is chaired by Ms. Anna Lisa Fraser-Phang.

Strategic Focus for Year 2007

We have made efforts to negotiate prices for some of our inputs which were successful. The prices for vegetable oils which are our main raw material input continue to rise as we have no control over prices. Market forces including bio-diesel project across the world have negatively impacted our production cost resulting in lower profit margins.

Energy costs have continued to squeeze our profit margins due to the constant increases in fuel costs which increased by G\$ 20.8 million over last year.

The Company will continue its efforts to seek other suppliers of oils, packaging and other raw material inputs so that materials cost can be reduced.

Investing in our people has materialized into training programs conducted at the Company. We support our employees to continue improving themselves so we can have a knowledge based workforce with the competence and skills to produce good quality products and **deliver excellent customer** service.

Acknowledgements

I would like to extend my appreciation to my fellow members of the Board of Directors for their valuable inputs. Let me take this opportunity to thank the Management and Staff for their hard work and commitment to the success of the organization.

The Company is on a path that will result in increase wealth for its shareholders, we are very confident that the strategies chosen will display the company's potential.

The relationship between the Company and its worker's union, Clerical and Commercial Worker's Union (CCWU) remains cordial and the continuous communication allows for the positive development of the employees.

My thanks to our customers locally and internationally who we value tremendously for your patronage as we look forward for your continued support in the coming year.

Also let me express my appreciation to all our suppliers of raw and other materials for maintaining a continuous supply that enable us to have a smooth operation.

Dr. Leslie Chin A.A
Chairman, Board of Directors.